

THE OFFICE OF REGULATORY STAFF

DIRECT TESTIMONY

OF

M. ANTHONY JAMES

MAY 3, 2010



DOCKET NO. 2009-489-E

**Application of South Carolina Electric & Gas
Company for Increases and Adjustments in
Electric Rate Schedules and Tariffs**

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FOR

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DOCKET NO. 2009-489-E

**IN RE: APPLICATION OF SOUTH CAROLINA ELECTRIC & GAS COMPANY
FOR INCREASES AND ADJUSTMENTS IN ELECTRIC RATE SCHEDULES AND
TARIFFS**

Q. PLEASE STATE YOUR NAME, BUSINESS ADDRESS AND OCCUPATION.

A. My name is Anthony James. My business address is 1401 Main Street, Suite 900, Columbia, South Carolina 29201. I am employed by the State of South Carolina as Associate Program Manager in the Electric Department of the Office of Regulatory Staff ("ORS").

Q. PLEASE STATE YOUR EDUCATIONAL BACKGROUND AND EXPERIENCE.

A. I hold a Bachelor's Degree in Engineering and a Master's Degree in Earth and Environmental Resources Management from the University of South Carolina. I am a Professional Engineer registered in the State of South Carolina, a member of the South Carolina Society of Professional Engineers and a member of the NARUC Staff Subcommittee on Electricity. I have been employed as a Project Engineer at environmental engineering consulting firms and at the South Carolina Department of Health and Environmental Control ("DHEC"). I joined DHEC in 1991 and was promoted from Project Engineer to Program Manager in 1995. As Program Manager in the Bureau of Water, I was responsible for coordinating DHEC's statewide wastewater compliance efforts. In 2004, I joined ORS as Senior Electric Specialist and was promoted to Associate Program Manager in 2009. As Associate Program Manager, my

responsibilities range from supporting senior management in reviewing base load plant applications to lead contact for renewable energy activities. Collectively, I have more than twenty years of experience as an environmental engineer in regulatory compliance.

Q. HAVE YOU TESTIFIED BEFORE THE PUBLIC SERVICE COMMISSION OF SOUTH CAROLINA (“COMMISSION”)?

A. Yes. I have testified before the Commission in a base rate case as well as a number of fuel clause proceedings. I have also been an ORS witness in proceedings regarding renewable energy resources, specifically, net metering programs and smart grid standards.

Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY IN THIS PROCEEDING?

A. The purpose of my testimony is to summarize the Electric Department’s review of South Carolina Electric & Gas Company (“Company” or “SCE&G”) Cost of Service Study as filed in its Application. I will also address the Company’s pro forma adjustment to amortize the V.C. Summer Nuclear Station (“V.C. Summer”) upflow modification over 10 years.

Q. WHAT IS THE PURPOSE OF A COST OF SERVICE STUDY?

A. The Company owns and operates an electric system which primarily provides retail electric service to residential, general service, industrial and street lighting customers, as well as wholesale customers. Each of these customer classes receives varying types of service and contribute different load characteristics to the system. The Cost of Service Study allocates – or directly assigns – responsibility for the revenues, expenses and rate base items among the individual customer classes. That is, the cost responsibility for expenses and rate base items should be allocated to the customer

class(es) that caused the cost to be incurred. This allocation methodology is referred to as “cost causation.”

Q. WOULD YOU PLEASE EXPLAIN THE MAJOR COMPONENTS OF A COST OF SERVICE STUDY?

A. The major components utilized in the development of a fully distributed Cost of Service Study are functionalization, classification and allocation. Functionalization is the process of categorizing cost according to its function, which is either production, transmission or distribution. Classification is further dividing these costs into the type of service they provide, namely demand, energy or customer. The allocation of these costs is based upon the demand, energy or customer costs incurred by the individual classes.

Q. PLEASE DESCRIBE THE ALLOCATION METHODOLOGY USED BY THE COMPANY IN ITS COST OF SERVICE STUDY.

A. The Company filed its study based on the summer Four Hour Coincident Peak Demand, which it has used since 1976 and which has been consistently approved by this Commission. Allocation factors for the demand related costs are two-fold. The class coincident peak (“CP”) allocator was developed based on the system territorial peak demand between the hours of 2 p.m. and 6 p.m. on the territorial peak day, which occurred on August 11, 2009. This allocator was used for the allocation of production and transmission investments to customer classes. The class non-coincident peak (“NCP”) allocator was developed based on the peak demands of each customer class whenever they occurred during the test year. This allocator was used for the allocation of demand related distribution investments and expenses to customer classes. The CP and NCP demand allocation methodology generally reflects how costs are incurred by the

Company to meet the demands customers place on the Company's system. The energy related allocation factors were based on the annual kilowatt hour ("kWh") sales for each customer class for the test year, adjusted for system losses. The energy allocation methodology generally reflects the variable costs – such as fuel – incurred by SCE&G to meet each customer class's energy consumption requirements placed on the Company's system throughout the year. The customer related factors were based on the number of customers in each respective class and used to allocate costs such as meters. In addition, costs such as extra facilities that were identified as being attributable to a specific class of customer were directly assigned to that customer class.

Q. WHAT WERE THE FINDINGS OF ORS'S REVIEW OF THE COMPANY'S COST OF SERVICE STUDY?

A. ORS concluded that the methodology applied in constructing the Company's Cost of Service Study provides a reasonable assessment and allocation of the Company's revenues, operating expenses and rate base items, which produces a rate of return by customer class.

Q. WOULD YOU PLEASE DISCUSS THE COMPANY'S PRO FORMA ADJUSTMENT TO AMORTIZE DEFERRED COSTS ASSOCIATED WITH THE V.C. SUMMER NUCLEAR STATION UPFLOW MODIFICATION?

A. Yes. According to the Company, the nuclear industry has determined that the best long-term solution for baffle jetting is to reverse the flow of coolant from a downflow configuration to an upflow configuration. Baffle jetting is a hydraulic induced instability or vibration of fuel rods caused by the high velocity jet of water flowing through the reactor. According to the Company, in 2003-2004, one fuel rod assembly at

1 V.C. Summer experienced damage as a result of baffle jetting. In Order No. 2007-644
2 dated September 26, 2007, the Commission granted relief sought by the Company to
3 defer all costs incurred in connection with the upflow modification of V.C. Summer,
4 including the 2007 costs and any related future costs incurred as a result of the temporary
5 remedial measure of fuel rod clipping. The Commission Order further states that these
6 costs will be examined in a future rate case.

7 The Company requests an adjustment to amortize these deferred costs over 10
8 years. ORS reviewed the Company's costs and found them to be prudent, but
9 recommends that it would be more appropriate to amortize these costs over the remaining
10 life of the plant, which is 32 years. According to the Nuclear Regulatory Commission,
11 V.C. Summer's Operating License expires in 2042. The impact of this adjustment is
12 detailed in Adjustment #19 of witness Scott's Direct Testimony.

13 **Q. DOES THIS CONCLUDE YOUR TESTIMONY?**

14 **A.** Yes, it does.